



# Tupper Lake Central School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — September 30, 2007

2008M-101



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Tupper Lake Central School District, entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Tupper Lake Central School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The Treasurer is responsible for cash receipts and disbursements. He is assisted by three clerical staff and overseen by the Superintendent. The Board has appointed a claims auditor responsible for auditing claims and certifying warrants, a central treasurer responsible for extra-classroom activities, and designated the Treasurer to act as the auditor for extra-classroom funds. The computer technology coordinator is the system administrator for the District's network, and the District contracts with a consultant to serve as the system administrator for the financial software system.

#### **Scope and Objective**

The objective of our audit was to assess the adequacy of internal controls over cash receipts and disbursements, extra-classroom activity funds and information technology for the period July 1, 2006 to September 30, 2007. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over extra-classroom activity funds adequate?
- Are internal controls over the District's information technology system appropriately designed to protect electronic data?

#### **Audit Results**

Internal controls over cash receipts and disbursements were not adequate. Cash receipt and disbursement duties were not properly segregated and receipts were not issued for 15 of 30 items tested totaling \$24,385. In addition, the Board did not provide proper oversight by requiring monthly and quarterly financial reports, the reports submitted did not include all financial activity or bank reconciliations, and bank reconciliations were not always accurate or prepared in a timely manner. Due to the lack of oversight, employees established informal methods for processing disbursements. A single bank account was used to process checks for claims and payrolls, and to deposit and disburse moneys held in trust. At times, arbitrary dollar amounts were transferred to the account to pay bills, and on some

occasions, operating funds were not sufficient to cover outstanding claims. As a result, scholarship moneys totaling \$62,900 were temporarily used during the year to pay general fund expenditures and accounting errors went uncorrected until the year-end audit. In addition, five payments totaling \$3,575 were made prior to authorization. These weaknesses increase the risk that errors or irregularities could occur and remain undetected.

Internal controls over extra-classroom activity funds were not adequate. Club records were not maintained in accordance with the Regulations of the Commissioner of Education and Board policy. Quarterly reports were not submitted to the Board; only three of the five clubs tested had a student treasurer and only two of the five clubs had student ledgers. Further, there was no documentation to indicate that 10 receipts totaling \$6,296 were received and accounted for by a faculty advisor or student treasurer, seven payment orders totaling \$2,250 were not supported by invoices detailing what was purchased and 16 payment orders totaling \$5,795 were not signed by a student treasurer. As a result, there is an increased risk that moneys will not be accounted for properly, deposited on a timely basis, or spent for legitimate purposes.

Internal controls over information technology were not adequate. The Board has not developed sufficient policies and procedures for the use of computer technology by staff. In addition, the Board and District officials did not require users to change passwords, lock out users after a set number of failed login attempts to the network, require complex passwords for access to the financial software, encrypt the financial software password file stored on the system, or limit employee access in the financial software to only those functions necessary for their job responsibilities. We also found that management did not routinely review audit logs and audit logs in the financial software did not record changes to user rights. Due to these weak access controls, the District's network and financial accounting system are susceptible to intruders or other malicious users. We also found that the District has not developed a plan to address disaster recovery in the event the system is disrupted or compromised.

### **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have, or planned to, initiate corrective action.

# Introduction

## Background

The Tupper Lake Central School District (District) is located in the Town of Tupper Lake, Franklin County and the Towns of Piercefield and Colton, St. Lawrence County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The Treasurer is responsible for cash receipts and disbursements. He is assisted by three clerical staff and overseen by the Superintendent. The Board has appointed a claims auditor responsible for auditing claims and certifying warrants, a central treasurer responsible for extra-classroom activities, and designated the Treasurer to act as the auditor for extra-classroom funds. The computer technology coordinator is the system administrator for the District's network, and the District contracts with a consultant to serve as the system administrator for the financial software system. There are approximately 560 computers and eight servers in use, with the elementary school using a different operating system than the middle/high school and administrative offices.

There are two schools in operation within the District, with approximately 1,000 students and approximately 200 employees. The District's expenditures from all funds for the 2006-07 fiscal year were \$15.5 million, which were funded primarily with State aid, real property taxes, and grants.

## Objective

The objective of our audit was to assess the adequacy of internal controls over cash receipts and disbursements, extra-classroom activity funds and information technology. Our audit addressed the following specific questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over extra-classroom activity funds adequate?
- Are internal controls over the District's information technology

**Scope and  
Methodology**

system appropriately designed to protect electronic data?

We examined internal controls over cash receipts and disbursements, extra-classroom activities, and information technology of the Tupper Lake Central School District for the period July 1, 2006 to September 30, 2007. Testing of cash receipts and disbursements was expanded through January 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have, or planned to, initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Cash Receipts and Disbursements

The Board is responsible for establishing a system of internal controls to safeguard the District's assets. An adequate system of internal controls includes the proper segregation of duties and policies and procedures to provide reasonable assurance that cash transactions are properly initiated, accurately recorded, and properly approved and documented. The Board must provide effective oversight and require the Treasurer to submit financial information as required by the Commissioner of Education for this purpose.

Cash receipt and disbursement duties are not properly segregated, monitored or controlled, duplicate press-numbered receipts are not always issued, and disbursements are made prior to authorization. In addition, the Board does not provide proper oversight such as requiring the Treasurer to submit monthly and quarterly financial reports, the reports submitted do not include all financial activity or bank reconciliations, and bank reconciliations are not always accurate or prepared in a timely manner. As a result, trust funds have been used inappropriately, accounting errors were not detected in a timely manner and there is an increased risk that errors or irregularities could occur and remain undetected.

Cash receipt and disbursement duties must be segregated so that no individual performs incompatible duties; and the work of one employee is independently verified in the course of another employee's regular duties to provide for a segregation of duties. While it may not always be possible to achieve an optimal segregation of duties, at a minimum, the duties of recordkeeping, cash receipt, cash disbursement and bank account reconciliation should be separated. District officials did not establish internal controls to provide for an adequate segregation of duties in the Business Office. The Treasurer collects cash receipts, posts accounting entries, makes bank transfers, signs checks and prepares monthly bank reconciliations. As a result, there is an increased risk that errors or irregularities could occur and remain undetected. We therefore extended our review and identified concerns with respect to cash receipts, cash disbursements and financial reporting.

### Cash Receipts

A good system of internal controls provides for the timely monitoring and supervision of those charged with handling moneys, as well as the issuance of duplicate press-numbered receipts (receipts) in sequence for cash collections to ensure that funds are deposited and accounted for properly.

District officials did not establish comprehensive internal controls to monitor and supervise cash receipts. Although the District adopted

a policy that required the issuance of receipts, the Treasurer did not prepare receipts for all cash received, and individuals outside of the Business Office did not issue receipts. Due to these control weaknesses, we traced 30 receipts totaling \$29,682 that were recorded in the accounting records to supporting documentation to determine that press-numbered receipts were being issued and that receipts were being recorded in the proper amounts in the proper accounts. We found that press-numbered receipts were not issued for 15 of the 30 receipts tested totaling \$24,385 which were included in the accounting records. Since receipts are not issued for all transactions, it is impossible to determine if all the cash received by the District was properly accounted for and deposited in proper amounts.

The failure to monitor and supervise cash receipts and ensure that receipts are issued makes it difficult for District officials to determine if funds received are properly deposited and makes the cash more susceptible to the risk of theft or loss.

## **Cash Disbursements**

A single bank account was used to process checks generated from approved warrants and payrolls, and to deposit and disburse moneys held in trust. The use of a single bank account to pay bills is a common practice that involves transferring the exact amount of a warrant or payroll into a single account to process checks. Once funds are disbursed, the account is left with zero balance. Account activity should be periodically reported to the Board and funds should not be disbursed prior to approval for payment.

Prior Business Managers established informal methods for processing disbursements, which the current Treasurer inherited and continued to use. The Treasurer indicated that his procedures to monitor the account balance and transfer non-specific dollar amounts to cover disbursements were based on prior practice. We found that he arbitrarily transferred amounts from operating funds to cover disbursements. Ten of 12 transfers tested totaling \$2.96 million did not match the amounts authorized for disbursement by the approved warrants and payrolls. For example, in September 2007, he transferred \$1.3 million although the corresponding claims totaled only \$486,000; leaving an unused balance of more than \$800,000. Further, moneys transferred were not always sufficient to cover disbursements. As a result, moneys held in trust were temporarily used to pay for operating expenditures. For example, in July 2007, the accounting records showed a scholarship balance of \$70,500. However, the actual cash balance was only \$7,600, meaning that \$62,900 in scholarship moneys were temporarily used during the year to pay for general fund expenditures. Further, the activity of this account was not included in any of the Treasurer's periodic reports to the Board, and several accounting errors related to bank transfers were not corrected until the District's year-end independent audit.

Due to these control weaknesses, we reviewed all bank statements for transfer activity and traced a sample of 15 payments totaling \$24,076 from the cash disbursement ledger to supporting purchase orders, requisitions, invoices, warrants, cancelled checks and bank statements. There were no exceptions related to transfer activity. All payments were recorded in the proper amounts, in the proper accounts and supported by proper documentation. However, we identified five payments totaling \$3,575 that were not approved by the claims auditor prior to disbursement.

The bill paying account has not been properly funded, financial activity has not been reported and disbursements have been made prior to approval for payment. As a result, trust funds have not been used appropriately, accounting errors were not detected in a timely manner and there is an increased risk that fraud and abuse could occur and remain undetected.

## **Financial Reporting**

Board oversight of day-to-day activities is especially important when the individual responsible for handling cash also maintains the records and reconciles bank statements. Proper Board oversight can only be carried out when the Board receives timely financial reports, which show moneys received and disbursed, reconciliations of balances in the accounting records to bank statements, and summaries of actual and budgeted revenues and expenditures. The Regulations of the Commissioner of Education require the Board to receive a cash receipts and disbursements report, reconciled to the bank statement balances for each fund on a monthly basis from the Treasurer. These regulations also require the Treasurer to provide a budget revenue and expenditure status report at least quarterly.

The Board did not require the Treasurer to submit monthly or quarterly financial reports for each fund. The Board received Treasurer's reports for only 12 of 15 months tested during our audit period, and did not receive any quarterly budget revenue and expenditure status reports. Further, the reports that were received only reflected the cash balance in the general fund and not all funds as required by the regulations. Our testing included a review of four general fund bank reconciliations. We found that only one reconciliation was prepared accurately and in a timely manner (within 30 days of the statement date). The remaining three were prepared at least five months after the statement dates and did not properly reconcile the balances in the accounting records to the bank statements.

The Board has not provided adequate oversight over cash receipts and disbursements. The failure to require the Treasurer to submit complete financial reports with bank reconciliations, prepared in a timely manner, increases the risk that errors or irregularities could occur and remain undetected.

## Recommendations

1. District officials should establish a formal system of internal controls over cash receipts and disbursements that, to the extent practicable, provides for the division of responsibilities within the Business Office so that the work of one employee is independently verified in the course of another employee's regular duties.
2. District officials should establish a system of internal controls over cash receipts that provides for the timely monitoring and supervision of those charged with handling District moneys.
3. The Treasurer should prepare receipts for all cash received and all individuals outside of the Business Office should issue receipts for all moneys received.
4. The Treasurer should ensure that transfers of funds to the single bank account to cover disbursements match the amounts authorized for disbursement by the approved warrants and payrolls.
5. District officials should ensure that all claims are properly audited prior to payment.
6. The Board should ensure that the Treasurer prepares monthly cash receipts and disbursements reports for all funds as well as quarterly budgeted revenues and expenditures status reports as required by the Commissioner of Education Regulations.
7. The Treasurer should prepare and submit timely bank reconciliations to the Board for review on a monthly basis.

## Extra-Classroom Activity Funds

Extra-classroom activity funds are raised by means other than taxation through charges by, for, or in the name of organizations whose activities are conducted by students. Students raise and spend these funds to promote the general welfare, education, and morale of all students, and to finance normal and appropriate extracurricular activities of the student body. The District's 35 accounts in the extra-classroom activity fund recorded more than \$100,000 in receipts and disbursements during the 2006–07 fiscal year, and had a combined cash balance of \$43,500 as of June 30, 2007.

The Regulations of the Commissioner of Education (Regulations) require the Board to establish policies and procedures that describe the records that District personnel and students must maintain, and the duties and control procedures they must follow, for the safeguarding, accounting, and auditing of extra-classroom funds. Regulations require the central treasurer to submit quarterly financial reports to the Board. The central treasurer is also required to issue receipts for funds received from faculty advisors or students. Student treasurers,<sup>1</sup> with the assistance of faculty advisors, are required to maintain a separate and independent set of records that can be verified with the central treasurer's records, including ledgers for each activity fund showing receipts, disbursements, and a running balance. Payment orders should be signed by the faculty advisor, student treasurer and the central treasurer and supported by invoices detailing what was purchased.

The Board has appointed a central treasurer for the extra-classroom activity fund to account for receipts and disbursements. The Board has also appointed faculty advisors, and designated the District Treasurer as the extra-classroom activity fund auditor. However, the Board did not receive quarterly financial reports from the central treasurer and we found indications during our risk assessment that supporting records were not being maintained for each activity fund. Due to these control weaknesses, we reviewed the ledgers, receipts, payment orders, cancelled checks, deposit slips, and bank statements for five clubs for two months each during our audit period:

- Only three clubs had a student treasurer and only two clubs had student ledgers. The faculty advisors for the three clubs

<sup>1</sup> Student treasurers are elected by the group or appointed by the faculty advisor.

that lacked student ledgers indicated that they relied on the central treasurer's ledgers to keep track of how much money was available to the clubs.

- We traced 21 central treasurer receipts totaling \$10,100 to club records. Ten receipts totaling \$6,296 did not have any corresponding documentation, such as receipts, to indicate that a faculty advisor or student treasurer received and accounted for the funds. The only documentation was the receipt signed by the central treasurer.
- We also traced 17 disbursements totaling \$6,785 from the central treasurer's ledger to cancelled checks, bank statements, approved payment orders and invoices. We found that seven payment orders, totaling \$2,250, were not supported by invoices detailing what was purchased and 16 payment orders, totaling \$5,795, were not signed by a student treasurer.

Although we did not identify any activity fund moneys that were inappropriately used, the Board and District officials should take appropriate steps to ensure that the Regulations and District policy are understood and being followed to better account for such moneys. The failure to submit quarterly reports, appoint student treasurers, and to ensure that records are maintained, receipts are issued and payment orders are signed and supported by invoices increases the risk that moneys received will not be accounted for properly, deposited on a timely basis, or spent for legitimate purposes.

## Recommendations

8. The central treasurer should provide the Board with quarterly financial reports for the extra-classroom activity fund.
9. Faculty advisors should ensure that student treasurers maintain ledgers showing all receipts, disbursements and a running balance.
10. District officials should ensure that faculty advisors and student treasurers properly issue receipts.
11. District officials should ensure that all payment orders are signed by the faculty advisor, student treasurer and central treasurer and are supported by an invoice.
12. The Board and District officials should ensure that extra-classroom funds are maintained in accordance with the Regulations and District policy.

## Information Technology

The District relies on information technology (IT) for computer education, access to the Internet, email communication, storing student data, maintaining financial records and reporting to various State and Federal agencies. Therefore, the IT system and data are valuable resources. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions can require extensive staff time and/or consultant hours to evaluate and repair. The Board and District officials are responsible for establishing policies and procedures for the acceptable use of computers, password security, user rights, audit logs and disaster recovery to provide assurance that IT assets are used in accordance with laws and sound business practices, and to safeguard the District's assets from the risk of loss and misuse.

The Board has not developed sufficient policies and procedures for the use of computer technology by staff. The Board and District officials do not require users to change passwords, lock out users after a set number of failed login attempts to the network, require complex passwords for the financial software, encrypt the financial software password file stored on the system or limit employee access in the financial software to only those functions necessary for their job responsibilities. Management does not routinely review audit logs and audit logs in the financial software do not record changes to user rights. Due to these weak access controls, the District's network and financial accounting system are susceptible to intruders or malicious users. The District has not developed a plan to address disaster recovery in the event the system is disrupted or compromised.

The Board must develop policies and procedures to provide guidance for all aspects of IT used at the District. Among other things, policies and procedures should address acceptable use standards for computers, password security, the assignment of user rights, audit logs and disaster recovery. The Board's limited policies and procedures do not provide adequate controls for the District's IT systems. For example, the District has an acceptable use policy for students. However, no such policy exists for the employees. In addition, appropriate policies have not been adopted for password security, the assignment of user rights, audit logs, and disaster recovery. As a result, the District's IT systems and electronic data are subject to an increased risk of loss or misuse. We therefore extended our review and identified the following concerns with respect to acceptable use, passwords, user access, audit logs and disaster recovery.

## Acceptable Use

The Board should adopt an acceptable-use policy to define its goals for the acceptable use of equipment and computing systems, and security measures to protect the District's resources and confidential information. The policy should include provisions for enforcement in the event of violations. Students and employees should provide written acknowledgment that they are aware of, and will abide by, the policy.

The District has adopted an acceptable-use policy for students and students are required to provide written acknowledgment that they are aware of, and will abide by, the policy. However, the District has no formal acceptable-use policy for employees. As a result, the District's IT systems and electronic data are subject to an increased risk of loss or misuse. Because of this weakness in controls we reviewed the District's web-filter reports for individuals with the most use and for those websites most often visited. We found that all usage appeared to be for legitimate educational purposes.

## Passwords

To provide assurance that computer resources are protected from unauthorized modifications, system administrators create user accounts to identify users and establish relationships between users and networks, computers, or applications. User accounts contain passwords and access rights to files, applications, directories and other resources. Passwords should be changed on a regular basis and users should be locked out after a set number of failed login attempts. Passwords should not be simple words or names. Complexity includes, for example, requiring a combination of upper and lower case letters, numbers, and a significant number of characters. Under no circumstances should passwords be written down and accessible to others, as this would compromise all other controls. When stored on a system, the password file should be encrypted so that if unauthorized users gain access to the file it will be unreadable.

The computer coordinator provides students and employees user accounts and passwords when they are first granted access to the network. Similarly, the system administrator provides employees with user accounts and passwords when they are first granted access to the financial software package. Once granted access, users are not required to change their passwords.

The financial software locks out users after three failed login attempts. However, the network does not lock out users after a set number of failed attempts. We also found that only a two-character password is necessary to gain access to the financial software package, and passwords to the financial software are stored on the system in a file that is not encrypted. This file can be read by anyone with access to the financial software package. As a result, there is an increased risk

that unauthorized users could gain access to sensitive information and that computer resources will not be protected from unauthorized modifications.

## **User Access**

To ensure a proper segregation of duties, system users should only be allowed access to the computer functions that are necessary to fulfill their job responsibilities. No individual in the Business Office should have the ability to add new users, and change user passwords and rights in the financial software, as this allows an individual to control and use all aspects of the software. Access controls prevent users from being involved in multiple aspects of financial transactions, which could allow for the manipulation and concealment of transactions.

The financial software package has access controls with nine access categories. This is a good control feature that provides the ability to restrict the access levels of different users. However, all users have full access to the financial software package. This includes the Superintendent, Treasurer, payroll clerk and accounting clerk. For example, the Superintendent and Treasurer have access to the payroll and accounting modules, giving each the ability to access functions such as for the maintenance of leave accruals and payroll deductions, neither of which are needed to fulfill their day-to-day job responsibilities. The Treasurer, Deputy Treasurer, and payroll clerk have access to the user maintenance application of the financial system, which allows them to add new users and change user passwords and rights.

Due to these control weaknesses, we performed a variety of tests of accounts payable and payroll to verify that payments were appropriate. Although our testing did not reveal any material exceptions, the failure to restrict user access to only those computer functions that are necessary for employees to fulfill their job responsibilities increases the risk that transactions could be manipulated or concealed.

## **Audit Logs**

A computerized financial system should provide a means to determine who is accessing the system and what transactions are being processed. Audit logs (commonly known as audit trails) maintain a record of activity by system or application process. Audit logs should provide information such as the identity of each person who has accessed the system, access dates and times, what activities occurred such as changes to users' rights, and logoff dates and times. Management or management's designee should review audit logs to monitor the activity of users and provide a mechanism for individual accountability, reconstructing events and problem monitoring.

The District's computerized financial system has the ability to generate audit logs. However, management does not routinely generate and

review audit logs. The audit logs do not record when users rights have been changed and by whom. This is a significant internal control weakness that could allow unauthorized activities to occur and go unnoticed and unresolved.

## **Disaster Recovery**

The District's internal control system should include a formal disaster plan to address the possible loss of computer equipment and data and establish procedures for recovery in the event of such a loss. The plan should detail the precautions to be taken to minimize the effects of any disaster and enable the District to either maintain or quickly resume mission-critical functions. The plan should include a significant focus on disaster prevention and on backing up and restoring data when disasters cannot be prevented.

Data should be backed up (i.e., copy made) on a routine basis and the backup copy stored at an environmentally and physically secure off-site location. We found the Board has not established policies or procedures for the backup of District information. Currently, District financial data is backed up to four tape drives. These tapes are stored off-site by an employee, but the storage area is not environmentally or physically secure. District staff indicated that they have restored these tapes; however, there was not regular testing of these backup tapes. If the system were to become compromised and a backup was not available to restore it to normal operations, the District risks losing most, if not all, of its computer-processed data.

The Board has not established a formal disaster plan. Consequently, in the event of a disaster, District personnel have no guidelines to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures.

## **Recommendations**

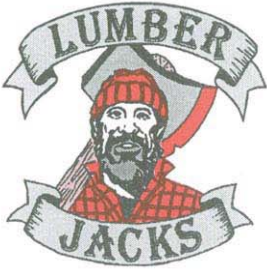
13. The Board should adopt policies and procedures that communicate clear guidance for all aspects of the District's IT system.
14. The Board should adopt an acceptable-use policy for District employees and require employees to provide written acknowledgment that they are aware of and will abide by the policy.
15. District officials should require users to change passwords on a regular basis, lock out users after a set number of failed login attempts to the network, and require Business Office employees to use complex passwords to access the financial software.
16. District officials should evaluate employee job descriptions and assign computer system access rights that are limited to and match job functions.

17. Audit logs for the financial software should be routinely generated and reviewed by management or an individual designated by management.
18. The Board should adopt a formal disaster recovery plan.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following page.



# TUPPER LAKE CENTRAL SCHOOL

www.tupperlakecsd.net

District Offices  
294 Hosley Avenue  
Tupper Lake, NY 12986  
518-359-3371 ext. 1000  
518-359-7862 (fax)

Middle/High School  
25 Chaney Avenue  
Tupper Lake, NY 12986  
518-359-3322 ext. 2000  
518-359-9636 (fax)

LP Quinn Elementary School  
294 Hosley Avenue  
Tupper Lake, NY 12986  
518-359-2981 ext. 1004  
518-359-3415 (fax)

Office of the State Comptroller  
One Broad Street  
Glens Falls, NY 12801

September 12, 2008

RE: Draft Audit Report

The Board of Education and Administration of the Tupper Lake Central School District have reviewed your draft audit report, and agree with your findings. Please consider this letter a response to that draft.

We have found your recommendations in the areas of cash receipts and disbursements, extra-classroom activity funds, and information technology very helpful. Many of the identified items were long-standing practices whose the origin can no longer be traced. We are proud to know that the finding did not indicate any misuse of school funds. As you are aware, many of the specifics in the report have already been corrected. This audit has helped us improve our methods.

I wish to commend the auditor for his professional demeanor, and thank him for the important insight and information he provided.

Sincerely,

Seth M<sup>c</sup>Gowan, *Superintendent*  
**Tupper Lake Central School District**

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements, extra-classroom activities and information technology for further audit testing. To determine the effectiveness of internal controls and effects of deficiencies in those controls, our procedures included the following:

- **Cash Receipts and Disbursements** — We reviewed Board minutes and policy manuals for cash receipts and disbursements, and interviewed District officials. We examined financial records such as general ledgers, monthly trial balances, Treasurer's reports, cancelled checks, cash receipts, cash receipts books, validated deposit slips, bank statements and bank reconciliations.
- **Extra-Classroom Activity Funds** — We reviewed policies for extra-classroom activities, and interviewed the central treasurer and faculty advisors. We examined records such as the central treasurer's ledger, student ledgers, cancelled checks, bank statements, validated deposit slips, deposit receipt forms, cash receipts, cash receipt books, bank statements, payment orders and invoices.
- **Information Technology** — We reviewed policies for computer use and information technology. We interviewed the computer technology coordinator regarding network passwords, physical access to the system, data backup and disaster recovery plans. We inspected system equipment locations, viewed Business Office employee computer screens and reviewed user access reports. We also interviewed the system administrator regarding controls for the financial management software.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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